CFO Message

Build a Robust Financial Structure by Focusing on Cash Flow and Aiming to Maximize Corporate Value

The biggest issues addressed in GLP 2020 are restoring growth in our core business, raising ROE by markedly improving operating profit margin, and actively making growth investments to build a business portfolio that is not affected by mobile technology evolutionary cycles. To that end, in our management we have incorporated a high-level of importance on capital cost, maximized cash generation capabilities, and enhanced corporate value.

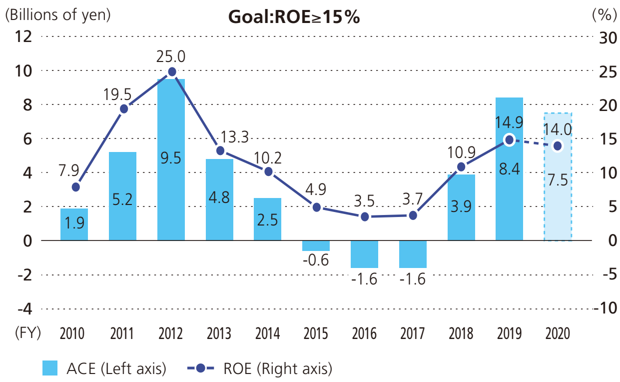
Akifumi Kubota
Director
Executive Vice President
CFO

Improving Corporate Value

We have established two KPIs as indices of corporate value improvement, and are managing these targets. As a numerical target, we use ROE, due to its ease of comparability with other companies, while as a quantitative target, we use Anritsu Capital-cost Evaluation (ACE*[1]) an original index that measures economic added-value. ACE is defined as "after-tax operating profit minus the cost of capital." If after-tax operating profit does not exceed the cost of capital, we do not regard it as having positive economic added-value. In other words, we can assume that no corporate value has been created in such case.

*1 ACE (Anritsu Capital-cost Evaluation): Net operating profit after tax – Cost of capital (5%). The Company's cost of capital was calculated as 7% for shareholder equity cost, and 5% for the weighted average cost of capital (WACC) used in our ACE index.

ACE and ROE Trends



Aiming for 15% ROE

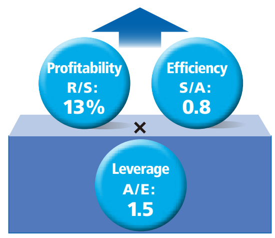
Anritsu considers achieving 15% ROE to be a priority management issue. To realize medium- to long-term growth in the global market, it is essential that we create adequate profits as a source of funds for investment. An ROE of 15% is the global standard and is considered to be an engine for profitable growth.

ROE is analyzed using three factors: "profitability," "efficiency," and "leverage."

ROE Target: Factor Breakdown

$$\text{ROE} = \frac{\text{Net income}}{\text{Equity}} = \underbrace{\frac{\text{Net income}}{\text{Revenue}}}_{\text{Profitability}} \times \underbrace{\frac{\text{Revenue}}{\text{Total assets}}}_{\text{Efficiency}} \times \underbrace{\frac{\text{Total assets}}{\text{Equity}}}_{\text{Leverage}}$$

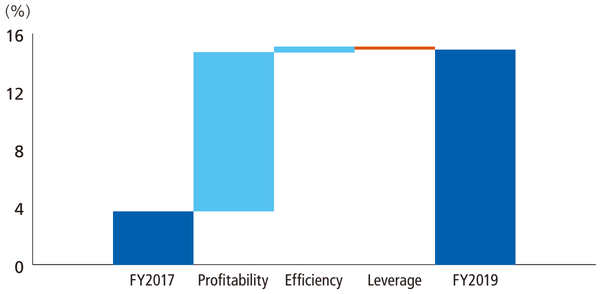
[Model case] **15% ROE (Beyond 2020 Target)**



Trends of ROE Factors

	Profitability	Efficiency	Leverage	ROE
FY2017	3.4%	0,70	1.59	3.7%
FY2018	9.0%	0.79	1.53	10.9%
FY2019	12.5%	0.79	1.50	14.9%
Beyond 2020	13.0%	0.80	1.50	15.0%

Differential Analysis of ROE (Difference between FY 2017 and FY2019)



Our initiatives targeting each of the three factors of profitability, efficiency, and leverage are as follows.

Profitability

Investment to Realize Growth

For the Test and Measurement Business, which is our main strength, we will focus on strengthening our competitiveness in 5G, while for the PQA Business, we will focus on investment aimed at global business development.

We have adopted development ROI (gross profit/development investment) as the standard for investment levels and are working to improve investment efficiency with the goal of realizing development ROI of 4.0 or higher.

Improving Cost Structure

We are also actively working to strengthen our cost structure to enhance profitability. For example, we are aggressively taking steps to achieve higher efficiency in our sales activities and improve business processes in our corporate department by appropriately managing and pursuing improvements in cost per order (CPO) in each sales region, in order to make the cost structure in each business segment adequate.

GLP 2020 measures aimed at improving profitability in each business are as follows.

Test and Measurement Business : Firmly capture the initial launch of 5G business, recover high-growth rates in the mobile T&M business, which is one of Anritsu's strengths, and recover the cost of investments in 5G development with high returns.

PQA Business : Improving price competitiveness or, in other words, improving gross profit margin is the key issue. The specific measures we will take are (1) differentiate our X-ray inspection system business, (2) provide new solutions through analysis of quality data, (3) expand our business in the European market, (4) fully enter the pharmaceuticals market, and (5) add value to operations across the entire value chain.

Efficiency

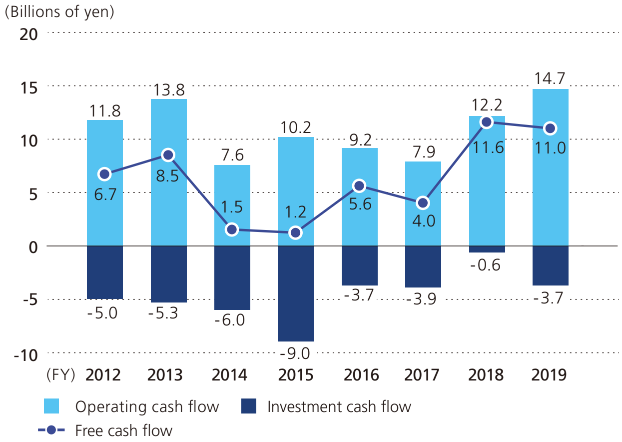
Thorough Cash Flow Management

To realize sustainable investment for growth, it is essential to strengthen our ability to generate cash flow. Our constant goal is to maintain our operating cash flow margin above 13% (achievable by realizing an operating profit margin of 18% and avoiding increases in working capital), and to raise our CCC*2, which is a cash flow improvement index, to 120 days (the best result over the last 10 years) in the fiscal year ending March 31, 2021. These targets will be realized by improving profitability through cost reductions and more efficient spending, as well as improving asset efficiency through measures such as reducing inventory and promoting the collection of accounts receivable.

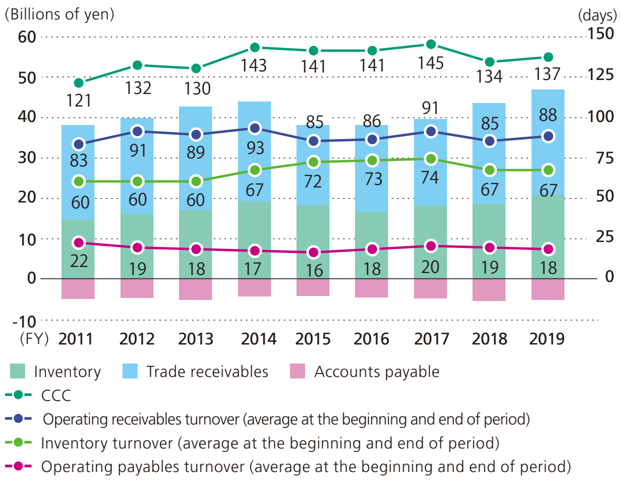
Moreover, as part of our capital cost-conscious management approach, we are also focusing on cash flow management in each division. As specific measures, we create a balance sheet for each division, and are working on management accounting practices, such as visualizing changes in cash and working capital. These measures are aimed at improving capital efficiency management in each division.

*2 CCC: Cash Conversion Cycle

Trends in Cash Flow



Trends in CCC

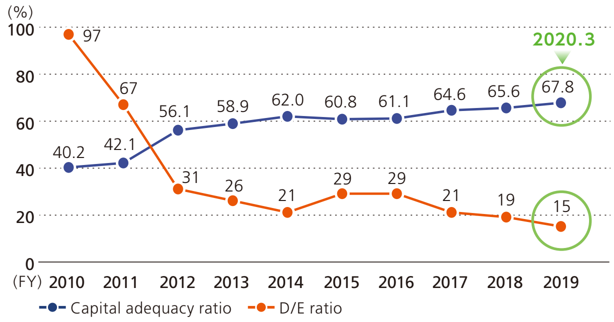


Leverage

Building a Robust Financial Structure

Our basic policy for building a robust financial structure is to maintain a capital adequacy ratio ≥ 60% and a debt-to-equity ratio (D/E)*3 ≤ 30%. In a rapidly changing market, having a strong financial base that supports medium- to long-term growth is extremely important. Anritsu's robust financial base has been evaluated, and our ratings by Rating and Investment Information, Inc. (R&I) as of March 31, 2020, was "a-1" for short-term, and "A-" for long-term.

Capital Adequacy Ratio/Debt-to-Equity Ratio

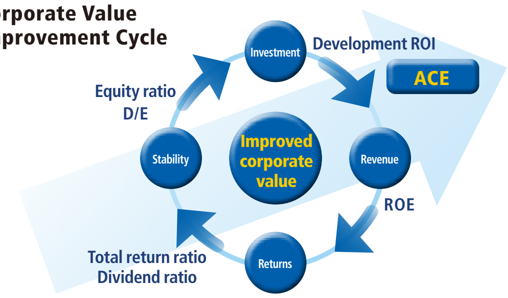


*3 Debt-to-equity ratio (D/E): Interest-bearing debt/Equity attributable to owners of the parent company

Harnessing the Corporate Value Improvement Cycle

Improving profitability and efficiency, and maximizing the capability to generate cash flow are fundamental for improving corporate value. By aggressively investing strategically in new product development and M&A, we will work to strengthen the competitiveness of our solutions and improve our business foundation to achieve high returns. In addition, by enhancing shareholder returns and building a robust financial position, we will be able to harness the corporate value improvement cycle.

Corporate Value Improvement Cycle



Shareholder Returns

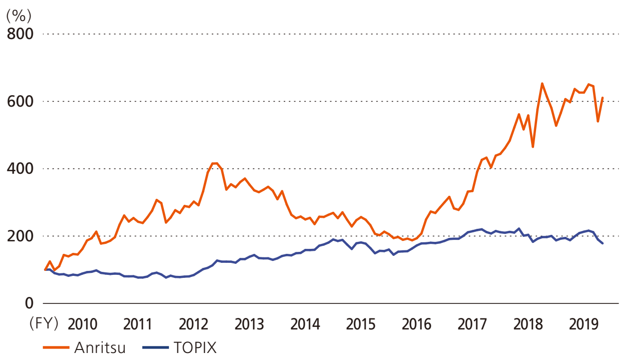
Our basic policy for the ways of distributing profits to shareholders is to pay dividends with a consolidated payout ratio of 30% or higher, primarily by raising the dividend on equity (DOE) in response to an increase in consolidated net income. We also flexibly implement other measures regarding shareholder return that take the total return ratio into account.

The total shareholder return (TSR) results over the past 10 years are as follows.

We will continue to implement growth strategies and sound finance and capital policies that will enable us to realize a TSR that exceeds capital cost (7%).

	Past year	Past 3 years	Past 5 years	Past 10 years
TSR (annual basis)	-0.6%	35.1%	20.3%	19.8%
TOPIX total return index	-9.5%	-0.1%	0.4%	6.0%

Total Shareholder Return (over past 10 years)



Furthermore, we plan to use surpluses to satisfy the demand for funding for strategic investment including strengthening our competitiveness in the 5G market, expanding business into industrial fields that employ Internet of Things (IoT), developing business in the cloud service and other markets, and acquiring next-generation technologies such as 6G. Through this active investment in medium- to long-term growth, we aim to meet the expectations of our shareholders and further improve our corporate value.

TOPICS

FY2019 Initiatives and Results

In our main business, the Test and Measurement Business, we achieved an operating profit margin of 20%. This was mainly due to firmly capturing the rapidly growing demand for 5G development in Japan and Asia. As a result, the operating profit margin for the Anritsu group was 16.3% and ROE was 14.9%. Following this profit growth, we raised the total annual dividend from the ¥22 per share initially planned to ¥31 per share. Also, in recognition of our improved profitability and robust financial structure, in May 2020, R&I changed the rating outlook of our "A-" long-term rating from "Stable" to "Positive."